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RUEHZU/ASIAN PACIFIC ECONOMIC COOPERATION PRIORITY
RUEHBY/AMEMBASSY CANBERRA PRIORITY 1632
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RUEHWL/AMEMBASSY WELLINGTON PRIORITY 0879
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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 002639

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TAGS: [ETRD](#) [PREL](#) [ASEAN](#) [CH](#) [KS](#) [JA](#)

SUBJECT: S/P DIRECTOR KRASNER'S MAY 10 MEETING WITH METI VM
KUSAKA

REF: A. TOKYO 2609

[1](#)B. TOKYO 2610

[1](#)C. TOKYO 2612

[1](#)D. TOKYO 2637

[1](#)E. TOKYO 2638

Classified By: Deputy Chief of Mission Joe Donovan. Reason:1.4 (b)(d).

[1](#)1. Summary: The need to deal with China's growing economic strength and the prospect of ASEAN Plus Three acceptance of a China-backed initiative for a regional free trade agreement (FTA) were the factors behind Trade Minister Nikai's recent proposal for an alternative Asian arrangement, according to METI International Affairs Vice Minister Kusaka. Meeting May 10 with Policy Planning Staff Director Stephen D. Krasner, Kusaka expressed frustration at U.S. rebuffs of previous Japanese initiatives on regional economic architecture. In addition, Japan sought to support the ASEAN secretariat and, according to Kusaka, had tried without success to elicit U.S. interest in doing so jointly with Japan. Kusaka stressed that ASEAN should form the core of any new regional architecture and explained that the idea of an "Asian OECD" included in Minister Nikai's proposal was aimed at strengthening the ASEAN Secretariat. He affirmed Japan's support for APEC as a way to generate trans-Pacific ties that counterbalance China-centered regional integration in East Asia and welcomed the establishment of FTAs between the United States and other countries in the region. Kusaka acknowledged that Japan had not paid much attention to the Extractive Industries Transparency Initiative but indicated METI would look into it further. End summary.

Regional FTA Initiative Driven by Need to Deal with China

[1](#)2. (C) Dr. Krasner opened his May 10 discussion with Ministry of Economy, Trade and Industry (METI) Vice Minister for International Affairs Kazumasa Kusaka by asking how METI Minister Nikai's recent proposal for an Asian free trade agreement that would include the members of ASEAN Plus Three along with India, Australia, and New Zealand would fit into a broader regional architecture, especially given the trans-Pacific nature of so much of the region's economic interaction. Krasner noted that he was puzzled by the related proposal for a Asian OECD-type organization and that the idea of a stronger China-Japan-ROK trilateral regional currency arrangement, which had been floated by the Japanese

Finance Ministry, would be extremely difficult to implement.

13. (C) Kusaka replied that the Japanese were also thinking about how Nikai's proposal would merge with a broader architecture. He recounted that nearly two years ago he had personally advocated to his U.S. interlocutors a three-level dialogue that would involve strengthening APEC, then the establishment of a smaller five-party Northeast Asian regional policy dialogue involving Japan, the United States, China, South Korea, and Russia (the so-called "Six Minus One"), and finally a deepening of the U.S.-Japan bilateral economic agenda. The United States, however, had not responded to this proposal. In the meantime, Kusaka stressed, the process of regional integration in the Asian region, like it or not, was progressing, with China using its growing economic strength and purchasing power to exercise ever greater political influence. Japan, according to Kusaka, still wanted to try to enhance the trans-Pacific axis of integration through APEC, and he pointed to Japan's decision to host the forum in 2010 as an example of that commitment to APEC.

14. (C) Dr. Krasner noted criticisms that APEC currently has too many members to be effective. Kusaka indicated that the situation necessitated the creation of a smaller sub-regional mechanism that could deal more effectively with China. In Kusaka's analysis, China would accept only a non-binding forum like APEC, but such a body could still be effective in influencing the Chinese on issues like intellectual property protection through international "peer pressure." This pressure would not need to be expressed through a formal FTA process but just through acceptance of common guidelines like those circulating in APEC. For that reason, Kusaka stressed,

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METI had worked to devise initiatives in APEC that the United States and Japan could cosponsor such as those on IPR and investment protection.

ASEAN Should Be the Core of East Asian Architecture

15. (C) In Japan's view, ASEAN would be the focus of Japan's FTA strategy, Kusaka said. Japan had already concluded an FTA or was in negotiations with several ASEAN countries. Minister Nikai's proposal for a regional FTA would not change this step-by-step approach; Japan's FTA negotiations will continue at the same pace as they have to date, at least through 2007 and probably longer as some agreements were likely to take more time. These bilateral agreements could then be annexed to a broader Japan-ASEAN FTA.

"Asian OECD" Aims at Strengthening ASEAN Secretariat

16. (C) With respect to Nishida's idea of an Asian OECD, Kusaka said the main point of that proposal was to strengthen the ASEAN Secretariat. ASEAN felt threatened by its "big northern neighbor" (i.e., China), and such a secretariat might help to improve ASEAN solidarity in the face of China's development. S/P Member Evan Feigenbaum noted that the U.S., too, was actively working to strengthen the secretariat and had a variety of efforts to this end underway in Jakarta and the region. Why not conduct Japan's efforts in coordination with the United States, he asked? Kusaka replied that Japan had tried, but failed, to elicit U.S. interest in doing so. Kusaka noted that Japan had been endeavoring through the APEC Energy Ministers' meeting to push a Japanese initiative to assist the ASEAN countries' energy authorities in coping with the increase in global oil prices, which was tied to a great extent to the rapid economic growth of both China and India. If an OECD-type organization existed under the ASEAN Secretariat, it could be responsible for capacity-building

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work similar to that which Japan was currently undertaking

bilaterally. Kusaka also mused that there might even be a possibility that such an organization could also engage in the kind of peer review process that the OECD imposes on its members but acknowledged that the likelihood of such an eventuality was slim.

Nikai Proposal Designed to Slow ASEAN Plus Three FTA

17. (C) Noting again his frustration at the lack of U.S. response to his broader initiative of two years' earlier, Kusaka emphasized that the reason Minister Nikai's proposal had centered on ASEAN Plus Three was that momentum toward a regional FTA, which former Korean president Kim Dae Jung had first raised a few years ago, had been building steadily. When this idea had come up again in last year's meeting of ASEAN Plus Three economic ministers, the Chinese had effectively "hijacked" the initiative, Kusaka said. Although Japan did not like the way in which the ASEAN Plus Three discussions were progressing, it did not want to reject the idea out of hand, and thereby isolate itself from the rest of Asia. The only alternative was to put out a more attractive alternative proposal for consideration by the ASEAN Plus Three leaders that might slow progress toward acceptance of the Chinese-sponsored initiative. According to Kusaka, the addition of India, Australia and New Zealand to the ASEAN Plus Three countries as outlined in Minister Nikai's proposal was aimed not only at bringing democratic countries into the discussion but, more importantly, at complicating the negotiations and hampering progress toward a quick agreement on China's preferred terms.

Japan Welcomes U.S. FTAs in Asia

18. (C) According to Kusaka, Japan welcomed the U.S. efforts to negotiate FTAs in East Asia. He added that once Japan and the United States had concluded their respective bilateral agreements with South Korea and various ASEAN countries, the one important missing leg of these "triangles" would be a U.S.-Japan FTA. Kusaka stressed that none of these

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agreements should be exclusive and could provide valuable linkages, just as Japan had been able to link into NAFTA through its FTA with Mexico. He added that Minister Nikai had explained this point and how his proposal would benefit the United States when he had spoken to (now former) USTR Portman.

Asia Not Ready for EU-style Integration

19. (C) Kusaka acknowledged that some Asian leaders had called for the establishment of a full "East Asian Community" that would go beyond economic arrangements and contain security elements as well. Japan's position, according to Kusaka, was that East Asia was still too diverse and not yet ready to explore an EU-style integration. At best, integration should proceed through a non-political, OECD-like or NAFTA-like approach based on the various FTA negotiations being pursued in the region.

110. (C) Dr. Krasner agreed that Japan's FTA agreements would be better than what the Chinese were likely to achieve but reiterated the U.S. concern about linking these agreements into a large framework. Again shifting his focus to U.S. choices, Kusaka replied that the United States and others had rejected the proposal for an APEC-wide FTA put forward by the APEC Business Advisory Council at the leaders meeting in Santiago, Chile, two years ago. Now the best that could be achieved would be the interconnection of the various bilateral initiatives. He emphasized that Japan had no desire to exclude the United States or other countries in North America from whatever architecture was emerging in East Asia (although he hinted that integrating the Latin American

countries would be less desirable). Nonetheless, Japan was in a position where it would soon need to say "yes" or "no" to the regional FTA proposal that was being developed in ASEAN Plus Three, and Japan would find it hard to say "no." Adding India, in particular, to the mix would probably make achieving any agreement more difficult, Kusaka said, but it would also effectively neutralize the present Chinese-backed initiative.

METI Will Look into EITI

11. (C) Turning to discussion of the Extractive Industries Transparency Initiative (EITI), Dr. Krasner noted that Japan has not been very engaged in the initiative to date. Kusaka indicated that because Japanese energy firms were not involved in many upstream activities, Japanese industry did not believe that the initiative would have much effect on its business. Krasner noted that the United States was looking to expand the initiative to more companies and to more industries (including minerals). Kusaka expressed his interest in the status of the initiative. Americas Division Director Akaishi indicated he would follow up either directly or through the Japanese Embassy in Washington.

Participants

12. (U) Participants in the meeting included:

United States

Stephen D. Krasner, Director, Policy Planning Staff
Joe Donovan, Deputy Chief of Mission, Embassy Tokyo
Evan Feigenbaum, S/P Member
David Wolff, Political Officer, Embassy Tokyo
Chris Wurzel, Economic Officer, Embassy Tokyo (notetaker)

METI

Kazumasa Kusaka, Vice Minister for International Affairs
Yasuo Tanabe, Vice President, Research Institute for Economy,
Trade and Industry
Koichi Akaishi, Director, Americas Division
Tomohiro Kaneko, Deputy Director, Americas Division

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13. (U) S/P Director Krasner cleared this message.

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